

Economics

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US Non-farm payrolls: Time to get the monkey off their backs

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Employment change (thousands, unless otherwise noted)	Aug 25	Jul 25	Jun 25	May 25	Apr 25
Unemployment rate (%)	4.3	4.2	4.1	4.2	4.2
Avg. hrly earn all (Monthly % Chg)	0.3%	0.3%	0.2%	0.4%	0.2%
Avg. wkly hour all (Monthly % Chg)	0.3%	0.3%	-0.1%	0.4%	0.2%
Nonfarm employment	22	79	-13	19	158
Total private	38	77	-27	69	133
Goods-producing	-25	-8	-21	-13	2
Construction	-7	-1	-2	2	0
Manufacturing	-12	-2	-17	-11	0
Priv. Serv providing	63	85	-6	82	131
Wholesale trade	-11.7	-8.3	-12.1	1.6	1
Retail trade	10.5	7.2	-5	-14.8	5
Transp. & Warehousing	3.6	6.3	3.8	-0.5	-8
Information	-5	-7	-3	2	1
Financial	-3	9	-6	7	5
Business services	-17	-10	-24	-23	27
Temporary help	-9.8	-10.2	-10	-15.2	17
Education, health	46	77	51	70	85
Leisure, hospitality	28	6	-5	27	18
Government	-16	2	14	-50	25
Federal Government	-15	-10	-9	-26	-13

Source: Haver Analytics

- Another not-so-good report in August that will likely be enough to convince the wait-and-see group in the FOMC to cut in September in the face of growing downside risks to the job market. Payroll job came in at 22K, below expectations of 75K, and there were modest downward net negative revisions (-21K) over the prior two months. The goods sector shed 25K jobs, led by trade-exposed durable goods manufacturing, and cyclically-sensitive service sectors were also weak in the month. It's clear the economy is downshifting due to both structural and cyclical factors. The average three-month job gain tally stands at 29K, compared to the unrevised 35K in the prior report. Wage growth was solid at 0.3% but average hours worked edged down a tick. The household survey showed the jobless rate rise to 4.3% as expected, although the participation rate rose one tick to 62.3%. While the macro case for easing policy isn't so clear cut, with the economy looking fairly resilient in the face of a major trade war and an immigration crackdown, the politics of monetary policy are getting complicated and it's likely not worth defending keeping rates on hold. Even with a cut, rates will still be modestly restrictive by most definitions. We expect an ease in September.

- Heading into today, recent speeches and statements suggests there could have been three camps within the FOMC. The first were who were going to vote for a cut no matter what (Waller, Bowman and Miran, assuming he is confirmed by then), the second group is Powell's circle (including Jefferson, Williams, Barr, Cook) who point to the totality of the data as giving them time to wait-and-see and then the undecided regional presidents (Collins, Musalem, Goolsbee -- Schmid, however, still likely favors a hold). Even though team Powell may have had enough votes to keep rates unchanged, it likely isn't worth the fight with some of the regional Presidents favoring getting on with it even before today's soft report. Having an FOMC that is divided would make future policy less predictable, and the stakes of even a couple more eases are not that high given where the Fed Funds rate is relative to neutral estimates. The Fed could easily pause again for a prolonged period if inflation is starting to look persistent.
- It's a complicated time for the Fed. Core inflation is running close to 3% and demand-driven inflation adding over to 1%-point of that, consumer spending is still holding up and AI spending is supporting investment -- there aren't consistent signs of demand-related price pressures materially subsiding. Those in favor of cutting point to the risks to the job market and softening labor demand, but no one truly knows what population growth in the US is right now, and for job growth to completely crater while growth still looks sturdy but the administration is aggressively cracking down on immigration has us leaning more towards the supply-side. And it's the balance of labor demand and supply that not only matters of inflation, but also for what one considered the maximum sustainable level of employment.
- So all that means September is mostly about politics, not economics. But how about October? October seems also reasonable at this point too. If labor demand is the focus and the broad-view of inflation is that it is likely to be a one-time price adjustment and combined with car makers absorbing much of the tariffs this year which has slowed the tariff-pass through -- it makes more sense to provide dose of relief that will actually help the economy rather than to dribble in policy support with skips. While 50bps over a couple of months isn't that much for an economy that has a weak inflation-slack relationship, it's more than 25bps and enough to wait to see what changes.

Implications & actions

Re: Economic forecast — We're changing our call from cuts in October and December this year, we're now expecting cuts in September and October. We are keeping our terminal rate view unchanged at 3.5%, being reached around the middle of next year, so we are shifting the timing of the start of the easing cycle, but keeping the total amount of easing unchanged at 100bps.

Re: Markets — Yields and the dollar dropped on the downside surprise. Market bets for a September ease are a lock.

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